

CITY OF STANWOOD  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

June 30, 2006

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CITY OF STANWOOD  
OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
	(Before January 2006)	
Todd Sawyer	Mayor	Jan. 2008
Jeffery Freeman	Mayor Pro tem	Jan. 2008
Dean Boesenber	Council Member	Jan. 2006
Rebecca Wachendorf	Council Member	Jan. 2006
Joan Koch	Council Member	Jan. 2006
Deborah Harr	Council Member	Jan. 2006
	(After January 2006)	
Todd Sawyer	Mayor	Jan. 2008
Jeffery Freeman	Mayor Pro tem	Jan. 2008
Dean Boesenber	Council Member	Jan. 2008
Rebecca Wachendorf	Council Member	Jan. 2010
Joan Koch	Council Member	Jan. 2010
Rodney Ohrt	Council Member	Jan. 2010
Karen Bixler	Clerk/Treasurer	Indefinite
Doug Wolfe	City Attorney	Jan. 2007

# Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

124A Main • P.O. Box 359

Elkader, Iowa 52043

(563) 245-2154 • (800) 310-2154

## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Stanwood, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Stanwood's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balances of the governmental and proprietary funds at July 1, 2005.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balances of the governmental and proprietary fund balances at July 1, 2005, as discussed in the preceeding paragraph, the financial statements referred to above present

fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Stanwood as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.


In accordance with Government Auditing Standards, we have also issued our report dated December 1, 2006 on our consideration of the City of Stanwood's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 13 and 26 through 27 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Stanwood's basic financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Elkader, Iowa

December 1, 2006

  
Dietz, Donald & Company, CPAs  
FEIN 42-1172392

# CITY OF STANWOOD

— Office of the Clerk —

563-942-3340

209 E. Broadway      P.O. Box 146  
Stanwood, Iowa 52337

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Stanwood provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow. However, keep in mind that Chapter 11 of the Code of Iowa does not require cities with a population of less than 2000 to have an annual audit. The last audit the City of Stanwood has had performed was for the fiscal year ended June 30, 2001, therefore, any financial information presented herein for the fiscal year ended June 30, 2005 had not been audited.

### 2006 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities increased 48.8%, or approximately \$ 224,000 from fiscal 2005 to fiscal 2006. Property tax increased approximately \$ 5,300 and Community Development Block Grants for housing rehabilitation increased \$ 209,000.

Disbursements of the City's governmental activities increased 106%, or approximately \$ 406,000 in fiscal 2006 from fiscal 2005. Public safety, culture and recreation, and capital projects disbursements increased approximately \$ 131,000, \$ 45,000 and \$ 292,000, respectively.

The City's total cash basis net assets decreased 17%, or approximately \$ 88,000, from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities decreased approximately \$ 104,000 and the assets of the business type activities increased by approximately \$ 16,000.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement

of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

## **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### **Government-wide Financial Statement**

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of

the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

#### Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer and storm water funds. The former two are considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

#### GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased



sharply from a year ago, decreasing from \$ 423,000 to \$ 319,000. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities  
(Expressed in Thousands)

	<u>Year Ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Receipts:		
Program receipts:		
Charges for service	\$ 79	83
Operating grants, contributions and restricted interest	64	57
Capital grants, contributions and restricted interest	316	80
General receipts:		
Property tax	187	181
Local option sales tax	24	36
Unrestricted interest on investments	10	13
Other general receipts	5	11
Total receipts	<u>685</u>	<u>461</u>
Disbursements:		
Public safety	179	48
Public works	114	123
Culture and recreation	73	28
Community and economic development	4	43
General government	66	79
Debt service	61	62
Capital projects	292	0
Total disbursements	<u>789</u>	<u>383</u>
Increase (decrease) in cash basis net assets	(104)	78
Cash basis net assets beginning of year	<u>423</u>	<u>345</u>
Cash basis net assets end of year	<u>\$ 319</u>	<u>423</u>

The City's total receipts for governmental activities increased by 48.8%, or \$ 224,000. The total cost of all programs and services increased by approximately \$ 406,000, or 106%, which includes \$ 250,000 more being spent on housing rehabilitation and the purchase of a fire truck. The significant increase in receipts was primarily the result of receiving \$ 209,000 more in Community Development Block Grant funds

in 2006 then in 2005.

The City property tax rates for 2006 were budgeted to increase by only \$ 600. Based on decreases in debt service requirements, property tax receipts are budgeted to decrease by \$ 2,200 next year. However, tax increment financing collections are budgeted to increase by \$ 29,000.

The cost of all governmental activities this year was \$ 789,000 compared to \$ 383,000 last year. However, as shown in the Statement of Activities and Net Assets on page 15 the amount taxpayers ultimately financed for these activities was only \$ 329,000 because some of the cost was paid by those directly benefited from the programs (\$ 79,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$ 380,000). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2006 from approximately \$ 220,000 to approximately \$ 459,000, principally due to receiving grant proceeds for housing rehabilitation. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$ 211,000 in tax (some of which could only be used for certain programs) and other receipts, such as interest and other general receipts.

Changes in Cash Basis Net Assets of Business Type Activities  
(Expressed in Thousands)

	Year Ended June 30,	
	2006	2005
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 83	62
Sewer	49	51
Storm water	2	2
General receipts:		
Unrestricted interest on investments	5	2
Other general receipts	3	0
Total receipts	<u>142</u>	<u>117</u>
Disbursements:		
Water	75	55
Sewer	47	75
Storm water	4	1
Total disbursements	<u>126</u>	<u>131</u>
Increase (decrease) in cash basis net assets	16	(14)
Cash basis net assets beginning of year	<u>99</u>	<u>113</u>
Cash basis net assets end of year	<u>\$ 115</u>	<u>99</u>

Total business type activities receipts for the fiscal year were \$ 142,000 compared to \$ 117,000 last year. This significant increase was due primarily to an increase in water rates. The cash balance increased by approximately \$ 16,000 from the prior year. Total disbursements for the fiscal year decreased by 3.8% to a total of \$ 115,000.

#### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Stanwood completed the year, its governmental funds reported a combined fund balance of \$ 319,240, a decrease of \$ 104,000 below last year's total of \$ 423,305. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance decreased \$ 35,246 from the prior year to \$ 162,774. The decrease was due primarily to transferring nearly \$ 46,000 to the Fire Department Expendable Trust Fund to assist with the purchase of a fire truck.

The Road Use Tax Fund cash balance increased by \$ 4,440 to \$ 49,071 during the fiscal year. This increase was attributable to spending only 92% of current road use tax receipts.

The Fire Department Expendable Trust Fund was established to account for funds set aside for purchasing equipment for the Fire Department. Fire Department donations of \$ 32,313, a General Fund transfer of \$ 45,553, interest of \$ 1,017 and previously accumulated funds of \$ 56,117 were used to purchase a fire truck for \$ 135,000 during the current fiscal year, leaving a fund balance of \$ 2,793.

The Ambulance Expendable Trust Fund was established to account for funds set aside for purchasing rescue equipment. Interest of \$ 3,806, donations of \$ 2,898 and a General Fund transfer of \$ 2,868 increased the fund balance to \$ 92,381.

The Housing Rehabilitation Fund was established to account for Community Development Block Grant Funds received for housing rehabilitation. The cash balance decreased \$ 26,617 to a deficit of \$ 12,017. The decrease was due to grant reimbursements not being received before year end. There was \$ 285,922 disbursed for housing rehabilitation in fiscal 2006.

#### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

The Water Fund cash balance increased by \$ 12,885 to \$ 64,109, due primarily to an increase in water rates.

The Sewer Fund cash balance increased by \$ 5,208 to \$ 51,567, due primarily to not spending any money on construction in the current fiscal year.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 15, 2006 and resulted in an increase in operating disbursements related to \$ 135,000 for a fire truck and \$ 285,000 for housing rehabilitation disbursements.

## DEBT ADMINISTRATION

At June 30, 2006, the City had approximately \$ 208,000 in bonds and other long-term debt, compared to approximately \$ 271,000 last year, as shown below.

### Outstanding Debt at Year-End (Expressed in Thousands)

	June 30,	
	2006	2005
General obligation bonds	\$ 42	47
General obligation notes	33	59
Urban renewal tax increment financing revenue bonds	103	125
Revenue bonds	30	40
Total	\$ 208	271

Debt decreased as a result of making annual debt service payments and issuing no new debt in the current year.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$ 75,000 is significantly below its constitutional debt limit of \$ 705,000.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Stanwood's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates, and fees charged for various City activities. One of those factors is the economy. Unemployment in the State now stands at 3.4 percent and the national rate is 3.9 percent.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 3.2 percent for fiscal year 2005 compared with the national rate of 3.4 percent. Inflation has been modest here due in part to the slowing of the residential housing market and increases in energy prices in 2006.

These indicators were taken into account when adopting the budget for fiscal year 2007. Amounts available for appropriation in the operating budget are \$ 534,000, a decrease of 38% over the final 2006 budget. Decreases in grants and donations of \$ 359,000 accounted for most of the decrease. Budgeted disbursements decreased by \$ 456,000. Elimination of the fire truck purchase (\$ 135,000) and completion of the housing rehabilitation program (\$ 285,000) represent the largest decreases. The City has added no major new programs or initiatives to the 2007 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase to approximately \$ 46,000 by the close of 2007.

#### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Karen Bixler, City Clerk, 209 East Broadway, Stanwood, Iowa 52337-0146.

## BASIC FINANCIAL STATEMENTS

Exhibit A

CITY OF STANWOOD  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
As of and for the Year Ended June 30, 2006

Functions/Programs:	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Governmental Activities:							
Public safety	\$ 179,263	25,194	0	40,035	(114,034)	0	(114,034)
Public works	113,936	45,741	56,933	0	(11,262)	0	(11,262)
Culture and recreation	73,266	4,624	6,407	17,043	(45,192)	0	(45,192)
Community and economic development	3,915	0	200	0	(3,715)	0	(3,715)
General government	66,376	3,898	0	0	(62,478)	0	(62,478)
Debt service	60,572	0	0	0	(60,572)	0	(60,572)
Capital projects	291,501	0	0	259,305	(32,196)	0	(32,196)
Total governmental activities	788,829	79,457	63,540	316,383	(329,449)	0	(329,449)
Business type activities:							
Water	75,157	82,945	0	0	0	7,788	7,788
Sewer	47,029	49,247	0	0	0	2,218	2,218
Storm water	3,713	2,053	0	0	0	(1,660)	(1,660)
Total business type activities	125,899	134,245	0	0	0	8,346	8,346
Total	\$ 914,728	213,702	63,540	316,383	(329,449)	8,346	(321,103)
General Receipts:							
Property and other city tax levied for:							
General purposes					118,903	0	118,903
Tax increment financing					35,820	0	35,820
Debt service					31,867	0	31,867
Local option sales tax					24,027	0	24,027
Unrestricted interest on investments					10,271	4,547	14,818
Miscellaneous					4,496	3,540	8,036
Total general receipts					225,384	8,087	233,471
Change in cash basis net assets					(104,065)	16,433	(87,632)
Cash basis net assets beginning of year					423,305	98,910	522,215
Cash basis net assets end of year					\$ 319,240	115,343	434,583
Cash Basis Net Assets							
Restricted:							
Streets					\$ 49,071	0	49,071
Fire Department					2,793	0	2,793
Ambulance					92,381	0	92,381
Urban renewal purposes					9,086	0	9,086
Library					14,110	0	14,110
Debt service					1,042	23,907	24,949
Unrestricted					150,757	91,436	242,193
Total cash basis net assets					\$ 319,240	115,343	434,583

CITY OF STANWOOD  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
As of and for the Year Ended June 30, 2006

Exhibit B

	Special Revenue						Capital Projects		Nonmajor	Total
	General	Road Use Tax	Department Expendable Trust	Ambulance Expendable Trust	Fire		Housing	Rehabilitation		
<b>Receipts:</b>										
Property tax	\$ 114,149	0	0	0	0	0	0	0	31,178	145,327
Tax increment financing	0	0	0	0	0	0	0	0	35,820	35,820
Other city tax	4,754	0	0	0	0	0	0	0	24,716	29,470
Licenses and permits	845	0	0	0	0	0	0	0	0	845
Use of money and property	10,321	0	1,017	3,806	0	0	0	0	527	15,671
Intergovernmental	21,343	56,933	0	0	0	259,305	0	0	0	337,581
Charges for service	58,862	0	0	559	0	0	0	0	0	59,421
Miscellaneous	22,200	0	32,313	2,898	0	0	0	0	3,218	60,629
<b>Total receipts</b>	<b>232,474</b>	<b>56,933</b>	<b>33,330</b>	<b>7,263</b>		<b>259,305</b>			<b>95,459</b>	<b>684,764</b>
<b>Disbursements:</b>										
<b>Operating:</b>										
Public safety	43,714	0	135,000	549	0	0	0	0	8,089	179,263
Public works	56,903	48,944	0	0	0	0	0	0	2,878	113,936
Culture and recreation	70,388	0	0	0	0	0	0	0	0	73,266
Community and economic development	3,915	0	0	0	0	0	0	0	0	3,915
General government	42,349	0	0	0	0	0	0	0	24,027	66,376
Debt service	0	0	0	0	0	0	0	0	60,572	60,572
Capital projects	2,030	3,549	0	0	0	285,922	0	0	291,501	291,501
<b>Total disbursements</b>	<b>219,299</b>	<b>52,493</b>	<b>135,000</b>	<b>549</b>		<b>285,922</b>			<b>95,566</b>	<b>788,829</b>
<b>Excess (deficiency) of receipts over (under) disbursements</b>	<b>13,175</b>	<b>4,440</b>	<b>(101,670)</b>	<b>6,714</b>		<b>(26,617)</b>			<b>(107)</b>	<b>(104,065)</b>
<b>Other financing sources (uses):</b>										
Operating transfers in	0	0	45,553	2,868	0	0	0	0	26,182	74,603
Operating transfers out	(48,421)	0	0	0	0	0	0	0	(26,182)	(74,603)
<b>Total other financing sources (uses)</b>	<b>(48,421)</b>	<b>0</b>	<b>45,553</b>	<b>2,868</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net change in cash balances</b>	<b>(35,246)</b>	<b>4,440</b>	<b>(56,117)</b>	<b>9,582</b>	<b>0</b>	<b>(26,617)</b>	<b>0</b>	<b>0</b>	<b>(107)</b>	<b>(104,065)</b>
<b>Cash balances beginning of year</b>	<b>198,020</b>	<b>44,631</b>	<b>58,910</b>	<b>82,799</b>	<b>0</b>	<b>14,600</b>	<b>0</b>	<b>0</b>	<b>24,345</b>	<b>423,305</b>
<b>Cash balances end of year</b>	<b>\$ 162,774</b>	<b>49,071</b>	<b>2,793</b>	<b>92,381</b>	<b>0</b>	<b>(12,017)</b>	<b>0</b>	<b>0</b>	<b>24,238</b>	<b>319,240</b>
<b>Cash Basis Fund Balances:</b>										
Unreserved:	\$ 0	0	0	0	0	0	0	0	1,042	1,042
General fund	162,774	0	0	0	0	0	0	0	0	162,774
Special revenue funds	0	49,071	2,793	92,381	0	0	0	0	23,196	167,441
Capital projects fund	0	0	0	0	0	(12,017)	0	0	0	(12,017)
<b>Total cash basis fund balances</b>	<b>\$ 162,774</b>	<b>49,071</b>	<b>2,793</b>	<b>92,381</b>	<b>0</b>	<b>(12,017)</b>	<b>0</b>	<b>0</b>	<b>24,238</b>	<b>319,240</b>

See notes to financial statements.



CITY OF STANWOOD  
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
 PROPRIETARY FUNDS  
 As of and for the Year Ended June 30, 2006

	Enterprise Funds			
	Water	Sewer	Nonmajor	Total
Operating receipts:				
Charges for service	\$ 82,945	49,247	2,053	134,245
Operating disbursements:				
Business type activities	75,157	35,586	3,713	114,456
Excess (deficiency) of operating receipts over (under) operating disbursements	7,788	13,661	(1,660)	19,789
Non-operating receipts (disbursements):				
Interest on investments	2,390	2,157	0	4,547
Miscellaneous	2,707	833	0	3,540
Debt service	0	(11,443)	0	(11,443)
Total non-operating receipts (disbursements)	5,097	(8,453)	0	(3,356)
Net change in cash balances	12,885	5,208	(1,660)	16,433
Cash balances beginning of year	51,224	46,359	1,327	98,910
Cash balances end of year	\$ 64,109	51,567	(333)	115,343
Cash Basis Fund Balances:				
Reserved for debt service	\$ 0	23,907	0	23,907
Unreserved	64,109	27,660	(333)	91,436
Total cash basis fund balances	\$ 64,109	51,567	(333)	115,343

See notes to financial statements.

## CITY OF STANWOOD

### Notes to Financial Statements

June 30, 2006

#### (1) Summary of Significant Accounting Policies

The City of Stanwood is a political subdivision of the State of Iowa located in Cedar County. It was first incorporated in 1886 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

##### A. Reporting Entity

For financial reporting purposes, the City of Stanwood has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

##### Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Cedar County Assessor's Conference Board, Cedar County Emergency Management Commission

and Cedar County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds. All remaining enterprise funds are aggregated and reported as nonmajor proprietary funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated

by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

**Special Revenue:**

The Road Use Tax Fund is used to account for road construction and maintenance.

The Fire Department Expendable Trust Fund is used to account for funds that are being set aside to purchase equipment for the Fire Department.

The Ambulance Expendable Trust Fund is used to account for funds that are being set aside to purchase rescue equipment.

**Capital Projects:**

The Housing Rehabilitation Fund is to account for housing rehabilitation Community Development Block Grant funds.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

**C. Measurement Focus and Basis of Accounting**

The City of Stanwood maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services

and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

**D. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the capital projects function.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered openend management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City. At June 30, 2006 the City had \$ 17,556 invested in a certificate of deposit at 3.8% with a maturity of 190 days.

**(3) Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation bonds and notes, urban renewal tax increment financing revenue bonds and revenue bonds are as follows:

Year Ending June 30,	General Obligation		Urban Renewal Tax Increment Financing (TIF)		Revenue Bonds		Total	
	Bonds and Notes		Revenue Bonds		Revenue Bonds			
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 20,833	2,210	23,767	2,924	10,000	900	54,600	6,034
2008	10,833	1,609	24,979	2,246	10,000	600	45,812	4,455
2009	15,833	1,292	26,253	1,535	10,000	300	52,086	3,127
2010	16,833	826	27,591	786	-	-	44,424	1,612
2011	11,000	330	-	-	-	-	11,000	330
Total	\$ 75,332	6,267	102,590	7,491	30,000	1,800	207,922	15,558

The urban renewal tax increment financing revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Special Revenue, Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City.

The resolution providing for the issuance of the sewer revenue bonds includes the following provisions.

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the fund.
- (b) Sufficient monthly transfers shall be made to the sewer revenue bond sinking account for the purpose of making the note principal and interest payments when due.
- (c) Additionally, other transfers shall be made to the sewer revenue bond reserve account. The account is restricted for the purpose of paying principal and interest when and if funds are not available in the sewer revenue bond sinking account. This account has met the minimum funding requirements as of June 30, 2006.
- (d) Bonds maturing after May 1, 1999, may be called for redemption by the issuer on December 1, 1999, or on any interest payment date thereafter.

#### (4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit

pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2006 were \$ 4,017 equal to the required contributions for the year.

**(5) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2006 is as follows.

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue:		
Fire Department Expendable Trust	General	\$ 45,553
Special Revenue:		
Ambulance Expendable Trust	General	2,868
Debt Service	Special Revenue:	
	Urban Renewal Tax	
	Increment	<u>26,182</u>
Total		<u>\$ 74,603</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**(6) Related Party Transactions**

The City had business transactions between the City and City officials totaling \$ 835 during the year ended June 30, 2006.

**(7) Risk Management**

The City is exposed to various risks of loss related to torts; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage

limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(8) Deficit Balance**

The Capital Projects, Housing Rehabilitation Fund had a deficit balance of \$ 12,017 at June 30, 2006. The deficit balance was a result of project costs incurred prior to the availability of funds. The deficit will be eliminated upon receipt of federal grants.

**(9) Commitments**

The City has contracted to purchase a 60 kw generator for \$ 23,260 after June 30, 2006.



REQUIRED SUPPLEMENTARY INFORMATION

CITY OF STANWOOD  
BUDGETARY COMPARISON SCHEDULE  
OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES -  
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
Year Ended June 30, 2006

	Governmental Funds		Proprietary Funds		Total	Budgeted Amounts		Final to Total Variance
	Actual		Actual			Original	Final	
<b>Receipts:</b>								
Property tax	\$ 145,327		0		145,327	142,554	142,554	2,773
Tax increment financing collections	35,820		0		35,820	35,230	35,000	820
Other city tax	29,470		0		29,470	44,288	29,472	(2)
Licenses and permits	845		0		845	735	860	(15)
Use of money and property	15,671		4,547		20,218	10,800	20,367	(149)
Intergovernmental	337,581		0		337,581	77,183	383,423	(45,842)
Charges for service	59,421		134,245		193,666	188,325	196,082	(2,416)
Miscellaneous	60,629		3,540		64,169	8,360	60,110	4,059
<b>Total receipts</b>	<b>684,764</b>		<b>142,332</b>		<b>827,096</b>	<b>507,455</b>	<b>867,868</b>	<b>(40,772)</b>
<b>Disbursements:</b>								
Public safety	179,263		0		179,263	57,087	191,543	12,280
Public works	113,936		0		113,936	112,375	125,019	11,083
Culture and recreation	73,266		0		73,266	20,675	74,817	1,551
Community and economic development	3,915		0		3,915	2,903	4,013	98
General government	66,376		0		66,376	83,462	70,255	3,879
Debt service	60,572		0		60,572	61,012	61,012	440
Capital projects	291,501		0		291,501	0	285,007	(6,494)
Business type activities	0		125,899		125,899	111,738	132,193	6,294
<b>Total disbursements</b>	<b>788,829</b>		<b>125,899</b>		<b>914,728</b>	<b>449,252</b>	<b>943,859</b>	<b>29,131</b>
<b>Excess (deficiency) of receipts over (under) disbursements</b>	<b>(104,065)</b>		<b>16,433</b>		<b>(87,632)</b>	<b>58,203</b>	<b>(75,991)</b>	<b>(11,641)</b>
<b>Balances beginning of year</b>	<b>423,205</b>		<b>98,910</b>		<b>522,215</b>	<b>406,212</b>	<b>406,212</b>	<b>116,003</b>
<b>Balances end of year</b>	<b>\$ 319,240</b>		<b>115,343</b>		<b>434,583</b>	<b>464,415</b>	<b>330,221</b>	<b>104,362</b>

See accompanying independent auditor's report.

## CITY OF STANWOOD

### Notes to Required Supplementary Information - Budgetary Reporting

June 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$ 494,607. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the capital projects function.

OTHER SUPPLEMENTARY INFORMATION

CITY OF STANWOOD  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
As of and for the Year Ended June 30, 2006

	Special Revenue					Total
	Local Option Sales Tax	Urban Renewal Tax Increment	Library Expendable Trust	Debt Service		
<b>Receipts:</b>						
Property tax	\$ 0	0	0	31,178		31,178
Tax increment financing	0	35,820	0	0		35,820
collections	24,027	0	0	689		24,716
Other city tax	0	0	527	0		527
Use of money and property	0	0	3,218	0		3,218
Miscellaneous	0	0	0	0		0
<b>Total receipts</b>	<b>24,027</b>	<b>35,820</b>	<b>3,745</b>	<b>31,867</b>		<b>95,459</b>
<b>Disbursements:</b>						
<b>Operating:</b>						
Public works	0	8,089	0	0		8,089
Culture and recreation	0	0	2,878	0		2,878
General government	24,027	0	0	60,572		84,627
Debt service	0	0	0	60,572		60,572
<b>Total disbursements</b>	<b>24,027</b>	<b>8,089</b>	<b>2,878</b>	<b>121,144</b>		<b>156,138</b>
Excess (deficiency) of receipts over (under) disbursements	0	27,731	867	(28,705)		(107)
Other financing sources (uses):						
Operating transfers in (out)	0	(26,182)	0	26,182		0
Net change in cash balances	0	1,549	867	(2,523)		(107)
Cash balance beginning of year	0	7,537	13,243	3,565		24,345
Cash balance end of year	\$ 0	\$ 9,086	\$ 14,110	\$ 1,042		\$ 24,238
<b>Cash Basis Fund Balances</b>						
Reserved for debt service	\$ 0	0	0	1,042		1,042
Unreserved:						
Special revenue funds	0	9,086	14,110	0		23,196
<b>Total cash basis fund balances</b>	<b>\$ 0</b>	<b>\$ 9,086</b>	<b>\$ 14,110</b>	<b>\$ 1,042</b>		<b>\$ 24,238</b>

See accompanying independent auditor's report.

CITY OF STANWOOD  
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS  
 AND CHANGES IN CASH BALANCES  
 NONMAJOR PROPRIETARY FUND  
 As of and for the Year Ended June 30, 2006

	Enterprise Fund
	Storm Water
Operating receipts:	
Charges for service	\$ 2,053
Operating disbursements:	
Business type activities	<u>3,713</u>
Deficiency of receipts under disbursements	(1,660)
Balance beginning of year	<u>1,327</u>
Balance end of year	<u>\$ (333)</u>

See accompanying independent auditor's report.

CITY OF STANWOOD  
SCHEDULE OF INDEBTEDNESS  
Year Ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Redeemed During Year	Balance End of Year	Interest Paid
<b>General obligation bonds:</b>							
Sewer improvement	Dec 28, 1990	3.00-4.864%	\$ 117,000	47,000	5,000	42,000	1,848
<b>General obligation notes:</b>							
Library	Apr 1, 1996	5.70%	\$ 80,000	10,000	10,000	0	285
Fire Department	Jun 1, 2004	2.85	35,000	29,165	5,833	23,332	831
Other	Jul 31, 2002	2.85	50,000	20,000	10,000	10,000	285
			\$ 59,165	25,833	33,332	1,401	
<b>Urban renewal tax increment financing (TIF) revenue bonds</b>							
	Aug 1, 1998	2.85%	\$ 252,891	125,202	22,613	102,589	3,568
<b>Revenue bonds:</b>							
Sewer	Dec 28, 1990	3.00-4.864%	\$ 177,000	40,000	10,000	30,000	1,423

See accompanying independent auditor's report.

CITY OF STANWOOD  
SCHEDULE OF INDEBTEDNESS  
June 30, 2006

Year Ending June 30,	General Obligation Bonds			General Obligation Notes		
	Sewer Improvement			Fire Department	Other	
	Issued Dec 28, 1990	Interest	Amount	Issued June 1, 2004	Issued Jul 31, 2002	
	Rates	Interest	Amount	Rates	Interest	Amount
2007	3.00%		\$ 5,000	2.85%		\$ 10,000
2008	3.00		5,000	2.85		-
2009	3.00		10,000	2.85		-
2010	3.00		11,000	2.85		-
2011	3.00		11,000			-
Total			<u>\$ 42,000</u>			<u>\$ 10,000</u>
						33,332
Year Ending June 30,	Urban Renewal Tax Increment Financing (RTF) Revenue Bonds			Revenue Bonds		
	Issued Aug 1, 1998	Interest	Amount	Sewer	Issued Dec 28, 1990	
	Rates	Interest	Amount	Interest	Interest	Amount
2007	2.85%		\$ 23,767	3.00%		\$ 10,000
2008	2.85		24,979	3.00		10,000
2009	2.85		26,253	3.00		10,000
2010	2.85		27,591			-
Total			<u>\$ 102,590</u>			<u>\$ 30,000</u>

See accompanying independent auditor's report.



# Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance  
with Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of the City of Stanwood, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated December 1, 2006. Our report expressed a qualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting, because we were not able to satisfy ourselves as to the distribution by fund of the total fund balance of the governmental and proprietary funds at July 1, 2005. Except as previously discussed, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Stanwood's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Stanwood's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Stanwood's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Stanwood and other parties to whom the City of Stanwood may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Stanwood during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Elkader, Iowa

December 1, 2006

*Dietz, Donald & Company*  
Dietz, Donald & Company, CPAs  
FEIN 42-1172392

CITY OF STANWOOD  
SCHEDULE OF FINDINGS  
Year Ended June 30, 2006

Part I: Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

I-A Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One employee at the City prepares bank account reconciliations, initiates cash receipts and disbursements functions and handles and records cash.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize elected officials whenever possible to provide additional control through review of financial transactions and reports.

I-B Separately Maintained Records - The Volunteer Fire Department and The Friends of the Library maintain separate accounting records pertaining to their operations. The financial activity for these operations is not included in the City's accounting records.

Recommendation - Chapter 384.20 of the Code of Iowa states in part that "a City shall keep accounts which show an accurate and detailed statement for all public funds collected, received, or expended for any City purpose. For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records and reported to the Council on a monthly basis.

Response - The City will request quarterly financial statements in an effort to comply.

Conclusion - Response acknowledged. In addition, bank statements should also be kept at City Hall.

Part II - Other Findings Related to Statutory Reporting:

- II-A Certified Budget - Disbursements during the year ended June 30, 2006 exceeded the amount budgeted in the capital projects function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - Although the budget was amended, the budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed budget.

Response - In the future, we will amend the budget in compliance with the Code of Iowa.

Conclusion - Response accepted.

- II-B Questionable Disbursements - No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

- II-C Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- II-D Business Transactions - Business Transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Jeffery Freeman, Mayor Pro tem, owner of East End Storage Service	Repair, parts and labor	\$ 835

In accordance with Chapter 362.5(11) of the Code of Iowa, the above transactions do not represent a conflict of interest since the total cumulative amount per individual was less than \$ 2,500 during the fiscal year.

II-E Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

II-G Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-H Revenue Bonds - The City has complied with the revenue bond resolution.

II-I Financial Condition - The Capital Projects, Housing Rehabilitation Fund had a deficit balance of \$ 12,017 at June 30, 2006.

Recommendation - The City should investigate alternatives to eliminate the deficit in order to return this fund to a sound financial position.

Response - The deficit was due to contractor costs incurred prior to receipt of federal grant proceeds. The deficit was subsequently eliminated.

Conclusion - Response accepted.